



THE COMMONWEALTH OF MASSACHUSETTS  
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

**DEPARTMENT OF  
TELECOMMUNICATIONS & ENERGY**

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COMMISSIONER

October 1, 2002

Stephen Klionsky  
Western Massachusetts Electric Company  
101 Federal Street, 13<sup>th</sup> Floor  
Boston, MA 02110

Re: Western Massachusetts Electric Company D.T.E. 02-49

Dear Mr. Klionsky:

Enclosed please find the Department of Telecommunications and Energy's First Set of Information Requests to Western Massachusetts Electric Company ("WMECO" or "the Company") issued in the above-captioned matter. Please submit the Company's responses before, 5 p.m., Friday, October 4, 2002.

Thank you for your attention in this matter.

Sincerely,

Elizabeth A. Cellucci  
Hearing Officer

Enc.

cc: Mary Cottrell, Secretary  
Joseph Rogers, Office of the Attorney General

**COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

FIRST SET OF INFORMATION REQUESTS OF  
THE DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY  
TO WESTERN MASSACHUSETTS ELECTRIC COMPANY  
D.T.E. 02-49

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Pursuant to 220 C.M.R. § 1.06 (6)(c), the Department of Telecommunications and Energy ("Department") submits to Western Massachusetts Electric Company, or "WMECO", or "the Company", the following Information Requests:

**INSTRUCTIONS**

The following instructions apply to this set of Information Requests and all subsequent Information Requests issued by the Department to the Company in this proceeding.

1. Each request should be answered in writing on a separate three-hole punched page with a recitation of the request, a reference to the request number, the docket number of the case and the name of the person responsible for the answer.
2. Please do not wait for all answers to be completed before supplying answers. Provide the answers as they are completed.
3. These requests shall be deemed continuing so as to require further supplemental responses if the Company or its witness receives or generates additional information within the scope of these requests between the time of the original response and the close of the record in this proceeding.
4. The term "provide complete and detailed documentation" means:  
  
Provide all data, assumptions and calculations relied upon. Provide the source of and basis for all data and assumptions employed. Include all studies, reports and planning documents from which data, estimates or assumptions were drawn, and support for how the data or assumptions were used in developing the projections or estimates. Provide and explain all supporting work-papers.
5. The term "document" is used in its broadest sense and includes, without limitation, writings, drawings, graphs, charts, photographs, phono-records, microfilm, microfiche, computer printouts, correspondence, handwritten notes, records or reports, bills, checks, articles from journals or other sources and other data compilations from which information can be obtained and all copies of such documents that bear notations or

other markings that differentiate such copies from the original.

6. If the Company finds that any one of these requests is ambiguous, please notify the Hearing Officer so that the request may be clarified prior to the preparation of a written response.
7. Please serve a copy of the responses on Mary Cottrell, Secretary of the Department; also submit one (1) copy of the response to: (1) Elizabeth Cellucci, Hearing Officer; (2) Kevin Brannelly, Rates and Revenues Division; (2) Paul Osborne, Rates and Revenues Division; (3) Joe Passaggio, Rates and Revenues Division (4) Jim Powell, Rates and Revenues Division; (5) Mauricio Diaz, Rates and Revenues Division and (6) Yvette Begue, Legal Division.
8. Responses are due by 5 p.m., Friday, October 4, 2002.

- DTE 1-1 Refer to page 4 of the pre-filed testimony of Randy A. Shoop (“Shoop Testimony”). Please provide the most recent average three-month treasury bill yield rate.
- DTE 1-2 Refer to the Shoop testimony at page 4. Please explain why customers’ rates will continue to reflect accrued interest at the three-month treasury bill rate until payment to Dominion Resources, Inc. (“DRI”) is made.
- DTE 1-3 Refer to the Shoop testimony at page 5. Does the Company anticipate that its bond ratings will increase significantly as a result of the PSNF liability being removed from the Company’s long-term debt? If so, please provide, to the extent possible, an estimate of the increase either in the form of anticipated basis points or a revised rating by one or more investment agencies.
- DTE 1-4 Refer to the Shoop testimony at pages 5-6. To what extent would the Company’s higher overall cost of capital (because of the 26/74 percent debt/equity ratio used for ratemaking purposes), once applied to a lower post-restructuring rate base, minimize the impact of the mismatch between the rate-making and rating agency capitalization ratios?
- DTE 1-5 Refer to the Shoop testimony at page 6. Please explain why “current rates reflect an equity investment that is significantly lower than its actual equity ratio” when prior on the page the Company states “the rate-making capital structure reflects a debt to total capitalization that is too low (26%).”
- DTE 1-6 Refer to the Shoop testimony at pages 6-7. Please explain why the Prior Spent Nuclear Fuel (“PSNF”) liability would no longer be treated as a rate base deduction for ratemaking purposes, assuming that the Department permits the financing of the PSNF liability with long-term debt.
- DTE 1-7 Refer to the Shoop testimony at page 7. Please explain why DRI might agree to a discounted amount of the then-current PSNF liability to establish the trust fund.
- DTE 1-8 Refer to the Shoop testimony at page 7. Please explain how the application of a lower average cost of capital to a lower post-restructuring rate base will benefit WMECO.
- DTE 1-9 Refer to the Shoop testimony at pages 7-9. Please reconcile the statement on page 7 that “any increase or decrease in the amount due to the DOE from the amount calculated in accordance with the Nuclear Waste Policy Act of 1982 would become the obligation or benefit of DRI” with the references found on

pages 8 and 9 that funds unneeded by the DOE would be returned to the Company.

- DTE 1-10 Refer to the Shoop testimony at page 8. Please explain the scenario or scenarios under which DOE may not need these additional funds.
- DTE 1-11 Refer to the Shoop testimony at pages 8 and 9. In the event that DRI does not require payment of the PSNF liability or that the amount of the liability is reduced through settlements, how would the excess funds would be returned to ratepayers.
- DTE 1-12 Refer to the Shoop testimony at pages 9. Explain why DRI would agree to the trust agreement if there was a possibility that it would incur a liability as a result of a shortfall in earnings.
- DTE 1-13 Refer to the Shoop testimony at page 11. Please explain the term ‘individual investors’.
- DTE 1-14 Refer to the Shoop testimony at page 13. Please explain the meaning of the term “credit spreads.”
- DTE 1-15 Refer to the Shoop testimony at page 13. Please explain why floating coupon rates would be applicable for 2 and 3 year notes only.
- DTE 1-16 Refer to the Shoop testimony at page 14. If the lower interest costs from obtaining insurance outweigh the premiums, please explain why the Company would not secure insurance in all bond issuances.
- DTE 1-17 Refer to the Shoop testimony at page 17. Who is the recipient of the credit spreads mentioned? What is the potential range of the credit spreads?
- DTE 1-18 Refer to the Shoop testimony at page 18. Please explain the term “counterparty” as used by the Company in the example provided therein. As part of this response, please explain why a counterparty would find it beneficial to engage in such transactions.
- DTE 1-19 Refer to the Shoop testimony at page 19. Please provide a copy of Financial Accounting Standards Board SFAS 133-Accounting for Derivative Instruments and Hedging Activities.
- DTE 1-20 Refer to the Shoop testimony at page 21. Regarding Interest Rate Caps, please provide a typical range of premiums paid to the seller or counterpart for an interest rate cap. As part of this response, please explain how and by whom this premium is determined.

- DTE 1-21 Refer to the Shoop testimony at pages 22 and 23. Please provide examples of counterparties who would engage in interest rate swaps, as well as the reason why a counterparty could find it financially advantageous to engage in these swaps. What happens if, in the Company's example, the LIBOR rate plus the 2.00 percent spread exceeds the coupon rate? In this event, would ratepayers be expected to pay for the difference?
- DTE 1-22 Refer to the Shoop testimony at page 23. Please explain how the "then-current" value of the swap is determined if it is terminated before its expiration date.
- DTE 1-23 Refer to the Shoop testimony at page 24. Will the Company seek Department approval if it engages in other types of derivative transactions?
- DTE 1-24 Refer to the Shoop testimony at page 24. Please explain how a change in value of a hedged exposure is determined.
- DTE 1-25 Refer to the Shoop testimony at pages 25-26. Please provide the ratemaking treatment of the financial effects of derivative financing in those instances where other state regulators have allowed this type of financing.
- DTE 1-26 Refer to the Shoop testimony at pages 25-26. Please describe the experience in other jurisdictions where derivative transactions have been approved. As part of this response, please provide, for each instance where derivative transactions have been approved, resulting interest savings or increases in interest costs to the companies using derivative transactions.
- DTE 1-27 Refer to the Shoop testimony at page 26. Please provide the current status of the interest-rate risk management policies and procedures that will govern the Company's use of derivatives.
- DTE 1-28 Refer to the Shoop testimony at page 26. Please provide a copy of the Company's risk management policies and procedures to manage derivative instruments.
- DTE 1-29 Refer to the Shoop testimony at page 26. Please provide, when available, a representative sample of the specific market instruments and parameters which will be used to manage the financial risks related to derivative financing.
- DTE 1-30 Refer to the Shoop testimony at page 26. Please provide a discussion of whether the Department's decision in this proceeding should be delayed until such time as the risk management policies and procedures to manage derivative instruments are in place and may be reviewed by the Department.

- DTE 1-31 Refer to the Shoop testimony at page 28. Given the \$101.170 million of long-term debt shown on the Company's December 31, 2001 balance sheet, is it fair to assume that the notional amount of hedges issued by WMECO with respect to that debt will not exceed \$101.170 million?
- DTE 1-32 Refer to the Shoop testimony at page 28. Please explain the phrase "marking-to-market."
- DTE 1-33 Refer to the Shoop testimony at page 29. Given that WMECO's customers will neither benefit from nor be burdened by the financial impacts of derivatives, please explain why the Department should permit the Company to engage in derivative financing.
- DTE 1-34 Refer to the Shoop testimony at page 30. Is WMECO seeking exemptions from the bidding and par value requirements for this particular issuance only?
- DTE 1-35 Refer to the Shoop testimony at pages 30-31. Please explain why market conditions may make it difficult for the Company to price all of its debt at par value while simultaneously offering an acceptable coupon rate to buyers. How do investors use discounts to refine the price structure of a debt instrument to achieve a desired interest rate? Please provide an example.
- DTE 1-36 Refer to the Shoop testimony at pages 30-31. Please explain whether the Company seeking to issue zero coupon bonds.
- DTE 1-37 Refer to the Shoop testimony at page 31. Please discuss the effect that derivative financing may have on the applicability of the net plant test as derived from G.L. c. 164, § 16.